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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Maxey Training School for the period October 1, 1998 through March 31, 1999. Our objectives were to evaluate both fiscal and procedural practices related to the Boy's Benefit Fund (BBF), the Boys' Accounts Fund (BA) at all five centers and the Maxey Academic Center (MAC). Included in our review were the canteen funds at Green Oak, Huron, and Sequoyah Centers, the MAC Student Council Fund, Thames Memorial Fund, and any financial transactions conducted at the Business Office.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of the fiscal and procedural practices for the following operations at the Maxey Training School Business Office and the five centers. We documented those operations, and evaluated controls in each operation. We tested the operation for compliance, where feasible.

Boys Accounts

Boys Benefit Funds

Canteen Funds

Thames Memorial Fund

Cash Receipts

Student Council Fund

Cash Disbursements

Vending Machines

Miscellaneous Revenue

Petty Cash

Resident Releases

## **EXECUTIVE SUMMARY**

Based on our audit, we concluded that the Maxey Training School internal controls were adequate in some areas, and needed improvement in others in order to provide management with reasonable assurance that assets are properly safeguarded and that policies and procedures of the Maxey Training School and Family Independence Agency are being followed. Our findings and recommendations for improved controls follow.

## **MAXEY TRAINING SCHOOL RESPONSE**

The management of Maxey Training School has reviewed all findings and recommendations included in this report. They indicated by e-mail on June 21, 1999 that they are in general agreement with the report, and plan to take the appropriate corrective action.

## **FINDINGS AND RECOMMENDATIONS**

### **Boys' Accounts**

This fund was established for the residents' money. Individual accounts are established in this fund for each resident. The residents may earn money by being paid \$2 a day by the State of Michigan for each day with no discipline problems. The residents may earn additional money by working at a center canteen (\$1 an hour), or by being employed by a private company through the Maxey Training School transition program. This fund is retained in a separate interest bearing checking account, and a ledger card is maintained for each resident who has funds in this account. Interest earned on this account (net of service fees) is allocated to each center at the end of the year and credited to each center's Boys Benefit Fund.

We concluded that controls over the Boys' Accounts Fund were generally adequate, except that deposits were not recorded in the check book, and a running balance was not kept

(Finding #1). Controls over receipts and disbursements were good. There was adequate separation of duties, adequate documentation to support withdrawals from the fund, and all transactions were properly approved. A hall staff employee approved any funds to be withdrawn for any resident, and the program manager also approved the withdrawal. In addition the resident signed a form to document that he understood that a check would be cut, the amount of the check, to whom it was payable, and that the funds would be taken from his account. This type of withdrawal was usually made because of a court order that required the resident to pay some type of restitution.

#### Checking Account Balance

1. The Maxey Training School did not record deposits made in the Boys Accounts checking account, nor did they keep a running balance in that account. Therefore, it was not possible for them to determine the exact amount in that account at any given time. In order to determine the book balance for any period of time the staff would have to get the previous months' bank reconciliation and add all of the deposits and subtract all of the disbursements since the reconciliation was done. Errors and inadvertent entries could occur and not be discovered until the end of the month when the bank reconciliation was completed.

WE RECOMMEND that Maxey Training School record all deposits when they are made, and keep a running balance in the checking account for the Boys Accounts.

#### Canteen Operations

The Maxey Training School currently operates canteens at the Sequoyah and Green Oak Centers. A canteen at the Huron Center was closed on January 12, 1999. We reviewed operating, inventory, and accounting controls at the canteens that are operating currently, and close-out procedures at the Huron Center. We found that controls in the canteen operation

needed improvement, specifically in the valuation of inventory (Finding #2), record keeping and depositing of funds for the cash boxes (Finding #3), and disposition of remaining inventory at the Center where the canteen was closed (Finding #4).

#### Valuation of Inventory

2. The Sequoyah and Green Oaks Centers at the Maxey Training School did not properly value the inventory of their canteen operations. The Centers did not record the cost of items when they were received and entered into inventory. Instead, they valued them at the retail price when the item was sold. Therefore, canteen operations always showed a loss on the Profit and Loss Statements prepared by the Centers. In addition, the Centers did not know the actual value of their canteen inventories.

WE RECOMMEND that the Sequoyah and Green Oak Centers record the cost of items as they are received into inventory, and use those figures to compute the value of their inventory, and the amount of profit or loss each month.

WE ALSO RECOMMEND the business office staff monitor the preparation of the profit and loss statement and related worksheets until they feel confident that they are being prepared according to Maxey Training School Standard Operating Procedures regarding canteen operations.

#### Cash Box Records

3. The Sequoyah and Green Oak Centers did not keep records to indicate how much cash should be in the cash box for the canteen operations. They did not have a set amount that was kept in the box for change, and did not keep a running balance based on moneys received into or withdrawn from the cash box. The shift supervisors did not know how

much money should be in the cash boxes. We counted \$34.27 in the Sequoyah Center cash box, and \$5.59 in the Green Oak Center cash box. Although these cash boxes do not represent a significant amount of money, the lack of records could allow for funds to be taken from the boxes without ever being detected.

WE RECOMMEND that the Sequoyah and Green Oak Centers establish a set amount to be kept in the cash boxes for change, keep records of amounts coming into or being withdrawn from the boxes each day, and deposit the amount in excess of the amount established for change each day.

#### Inventory at Closed Canteen Operation

4. The Huron Center had not disposed of the remaining inventory of its canteen operation by March 31, 1999, even though the canteen officially closed on January 12, 1999. There was \$1004.58 worth of unused inventory stored in a locked closet at the time of our review. Huron Center staff informed us that some items are obsolete and some items are usable.

In addition, as of January 12, 1999 there was a balance of \$2,037.69 left in the Huron Center canteen fund. Huron Center staff informed us that these moneys would be transferred into the Huron Center BBF at the end of March.

WE RECOMMEND that the Huron Center transfer any usable inventory to the canteen operations of the Sequoyah and/or Green Oak Center.

WE ALSO RECOMMEND that the Huron Center donate or dispose of the remaining inventory that is not usable by the Sequoyah or Green Oak Center.

IN ADDITION, WE RECOMMEND that Maxey Training School verify that the transfer of funds from the Huron Center canteen operations fund to the BBF took place as scheduled.

### **Cash Receipts**

We found that the controls over cash receipts at the Maxey Training School were generally adequate. Our review disclosed no instances of noncompliance with procedures, and no weaknesses in internal controls related to the receipting process.

### **Cash Disbursements**

We found that the controls over cash disbursements at the Maxey Training School were generally adequate. There was proper authorization for all disbursements, duties were appropriately separated, and the bank reconciliation was properly prepared on a timely basis. Our review disclosed no instances of noncompliance with procedures, and no weaknesses in internal controls related to the disbursements process.

### **Miscellaneous Revenue**

The Maxey Training School maintained a miscellaneous revenue account. The primary purpose of this account was for depositing the meal ticket revenue received from guests who ate at Maxey. We found no control weaknesses in the record keeping procedures for this account.

### **Resident Releases**

We found that controls at Maxey Training School were adequate to ensure that residents received the correct amount of money they were entitled to upon their release. Residents were given the amount they were entitled to in the form of a check, or a combination of check and

cash. Procedures were in place to contact residents after their release to forward funds to them if Maxey Training School staff discovered that they were owed additional funds after their release.

### **Boys Benefit Fund**

We concluded that controls over the Boys Benefit Fund were generally adequate. There was adequate separation of duties and all disbursements from the fund were properly authorized and approved. However, we noted that deposits to the fund were not recorded timely, and there was no running balance in the checking account records (Finding #5). In addition, we noted that the Boys Benefit Fund balance for one of the centers did not agree with the center's records (Finding #6).

### **Checking Account Balance**

5. The Maxey Training School did not record deposits made in the Boys Benefit Fund checking account, nor did they keep a running balance in that account. Therefore, they could not readily determine the exact amount in that account at any given time. In order to determine the book balance for any period of time the staff would have to get the previous months' bank reconciliation and add all of the deposits and subtract all of the disbursements since that reconciliation was done. Errors and inadvertent entries could occur and not be discovered until the end of the month when the bank reconciliation was completed.

WE RECOMMEND that Maxey Training School record all deposits when they are made, and keep a running balance in the checking account for the Boys Benefit Fund Account.

### **Boys Benefit Fund - Olympic Center**

6. The Boys Benefit Fund balance per the Olympic Center records did not agree with the balance on hand for the Olympic Center per the Maxey Business Office. Olympic Center has six halls that make up the center. Each of these halls maintained a BBF ledger card where they recorded all transactions. The total on hand per these ledger cards differed from the total on hand per the Business Office by \$3,410.49. There was no reconciliation performed on these accounts.

WE RECOMMEND that the Maxey Training School reconcile the balance between the Olympic Center records and the Maxey Business Office records, and implement procedures to ensure that the records are periodically reconciled.

### **Thames Memorial Fund**

The Thames Memorial Fund is a separate fund that is part of the Boys Benefit Fund. It was established in memory of a police officer who was killed in the line of duty. The officer's family periodically donates to this fund. We noted that there was very little activity in this fund. Controls were generally adequate over this fund. Withdrawals from the fund were properly authorized, and deposits and withdrawals were properly recorded. However, the records for this fund were at the Green Oak Center even though it appeared that these funds were available for use by any of the Centers at the Maxey Training School (Finding #7).

### **Thames Memorial Funds Records**

7. The Green Oak Center at the Maxey Training School maintained the records for the Thames Memorial Fund, although it appeared that the funds were available for use by all the Centers at the Maxey Training School. The fund was first established for use at only the Green Oak Center, but in 1993 it was made available for all the Centers. Green Oak Center remained the custodian of the fund. Other Centers made deposits to and

withdrawals from the fund, but did not forward the information on these transactions to the Green Oak Center on a timely basis for recording in the records. Therefore, it has been difficult to maintain an accurate, up-to-date balance for the fund. The Business Office at Maxey Training School is better equipped to keep these records and ensure that the appropriate information is forwarded to them on a timely basis.

WE RECOMMEND that the Maxey Business Office be made the custodian of the Thames Memorial Fund.

### **Student Council Fund**

The Maxey Academic Center and Student Council Funds are accounted for separately, but are included in the Boys Benefit Fund. We concluded that there was very little recent activity in these funds. Nothing came to our attention that would indicate any control weaknesses in the procedures associated with these funds.

### **Vending Machines**

Vending machines are located at some of the Centers and in the Business Office at Maxey Training School. The income from these machines is a source of revenue for the Boys Benefit Fund. Based on our review, we concluded that controls over the vending machines need improvement. Most of the Centers were unable to locate an agreement with the vending machine company (Finding #8) and none of the Centers had procedures in place to ensure that they were receiving the correct amount of revenue they were entitled to from the machines (Finding #9).

### **Vending Machine Agreements**

8. The Huron and Summit Centers and the Business Office were unable to locate agreements with the vending machine company for the vending machines located in their areas. An

agreement would set forth the terms and conditions for having the machines located on-site, and would provide documentation for how the amount of revenue the Maxey Training School would receive from the machines would be determined. The Huron and Summit Centers thought they were receiving 10% of the total sales from the machines. The Green Oak Center had agreements for its vending machines that stated they were to receive 15% of the total sales. The Business Office staff were not sure if they receive any revenue from the machines located there.

WE RECOMMEND that the Maxey Training School obtain written agreements with the vending machine company for all the machines for which they do not currently have an agreement.

#### Verification of Revenue Amount

9. Maxey Training School did not have procedures in place to verify that they were receiving the correct amount of revenue from the vending machines. According to the staff at the various centers the vendor comes in once a week and collects the money from the machines and at the same time restocks the machines. No staff from the center has a key to any of these machines nor does any of the staff count the money with the vendor when the machines are serviced. Approximately every three months the vendor sends a check to the respective centers for their share of the profits from their machines. The staff at the business office did not know if they receive a check or if a check is sent somewhere else for the proceeds from their vending machines. The staff at Huron and Summit Centers believe that their check should be 10% of the proceeds, and Green Oak Center has an agreement that states they should receive 15% of the proceeds from their machines. When the checks are received they are recorded and deposited in the BBF of each of the respective centers.

WE RECOMMEND that a member of the staff at each of the centers count the receipts with the vendor when the vending machines are serviced, record the date and the amount that should be received, and then compare the amount received from the vending machine company to the amount that should be received per their calculation.

### **Petty Cash**

The Maxey Training School maintained a petty cash account of \$200. The fund was kept in a locked box inside a secured file cabinet. This fund was properly controlled, and records for it were properly maintained. Disbursements from the fund were properly authorized and documented, and the fund was reconciled on a routine basis.

### **Other Item**

The following item is not specific to one area included in our audit scope, but affects several of the areas covered.

### **Timely Reporting**

10. The Sequoyah Center did not submit its monthly reports to the Business Office within 5 business days of the end of the month, as required by the Maxey Training School policy. In order for the Maxey Training School Business Office to prepare reconciliations and cash reports timely and detect and correct any errors quickly, it is imperative that the Centers complete and submit their required reports accurately and timely. Sequoyah Center was routinely late in submitting these reports. They sent February's reports to the Business Office eleven (11) business days late.

WE RECOMMEND the Sequoyah Center submit its monthly reports to the Business Office within 5 business days of the end of the month.